

## Message Text

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ACTION EB-07

INFO OCT-01 EA-09 ISO-00 FEA-01 AGR-10 CEA-01 CIAE-00

COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04

TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 OMB-01 /104 W

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R 270835Z AUG 75

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 6638

INFO USLO PEKING

UNCLAS HONG KONG 9914

E.O. 11652: N/A

TAGS: EFIN, EIND, EINV

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: (A) STATE 165596

(B) STATE 197406

SUMMARY: THIS POST DID NOT RESPOND TO REF A BEFORE NOW BECAUSE WE HAD BEEN OMITTED AS AN ADDRESSEE. HOWEVER, AS REF B, REQUESTING REPLIES AS SOON AS POSSIBLE, DID INCLUDE HONG KONG AS AN ACTION ADDRESSEE, WE SUBMIT THE FOLLOWING REVISED TEXT OF OUR FOREIGN INVESTMENT STATISTICS AND NARRATIVE STATEMENT ON INVESTMENT CLIMATE. END SUMMARY

1. IN THE WORDS OF THE COLONY'S FINANCIAL SECRETARY, "HONG KONG WELCOMES THE FOREIGN INVESTOR NOT JUST FOR THE CAPITAL HE BRINGS WITH HIM BUT EVEN MORE FOR THE TECHNICAL SKILLS AND INNOVATIONS WHICH HE CAN IMPART TO OUR ECONOMY AND LABOUR FORCE." THIS STATEMENT IS BORNE OUT BY THE ABSENCE OF LEGAL RESTRICTIONS ON EITHER FRESH INVESTMENTS OR TAKEOVERS. THERE ARE ALSO NO TAX HOLIDAYS OR OTHER SPECIAL INCENTIVES; THE HONG KONG GOVERNMENT BELIEVES SUFFICIENT INCENTIVE IS PRO-  
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VIDED BY THE OBJECTIVE ADVANTAGES OF THE COLONY: A LOCATION

CENTRAL TO ASIAN MARKETS; EASE OF INCORPORATION; A LOW TAX RATE (16.5 PERCENT MAXIMUM) ON PERSONAL AND CORPORATE INCOME; AND EXCELLENT COMMUNICATIONS AND TRANSPORTATION FACILITIES. REALIZING THAT HIGH FREE MARKET LAND COSTS MIGHT DETER HIGH TECHNOLOGY INVESTORS REQUIRING SIZEABLE LAND AREAS, THE HKG HAS BEGUN TO LEASE INDUSTRIAL LAND TO SUCH INVESTORS BY PRIVATE TREATY AT SUBSTANTIALLY LOWER COST. THE COLONY IS A FREE PORT AND LEVIES DUTIES ONLY ON LIQUOR, TOBACCO, AND PETROLEUM PRODUCTS FOR MOTOR VEHICLES. THE ONLY COMMODITY SUBJECT TO IMPORT QUOTAS IS RICE.

2. IN LINE WITH ITS LAISSER-FAIRE PHILOSOPHY, THE HONG KONG GOVERNMENT CONSCIOUSLY AVOIDS FISCAL OR OTHER MEASURES DESIGNED TO AFFECT MANAGEMENT DECISIONS. A SMALL DEPARTURE FROM THIS ATTITUDE IS FOUND IN A PENDING SERIES OF LAWS GOVERNING STOCK MARKET TRANSACTIONS DESIGNED TO PROTECT POTENTIAL INVESTORS.

3. THE HONG KONG LABOR MARKET IS CURRENTLY EXPERIENCING A HIGH LEVEL OF UNEMPLOYMENT COMBINED WITH VIRTUALLY NO INCREASE IN WAGE LEVELS SINCE MID 1974. ALTHOUGH SKILLED LABOR IS PLENTIFUL, HIGH LAND COSTS HAVE TENDED TO INHIBIT U.S. DIRECT INVESTMENT IN INDUSTRY. MOST RECENT U.S. INVESTMENT (WITH THE NOTABLE EXCEPTION OF TWO LARGE INDUSTRIAL PROJECTS) HAS TAKEN THE FORM OF ESTABLISHING REGIONAL CORPORATE HEADQUARTERS OR FINANCE COMPANIES. INVESTORS HAVE BEEN ATTRACTED BY THE FACTORS MENTIONED ABOVE AND BY HONG KONG'S POSITION AS A GATEWAY TO CHINA. FOREIGN INDUSTRIAL INVESTMENT HAS CONCENTRATED UPON TEXTILES, ELECTRONICS, AND TOYS. FOREIGN-OWNED INDUSTRIES EMPLOY 12 PERCENT OF THE INDUSTRIAL WORK FORCE AND ACCOUNT FOR ABOUT 12 PERCENT OF THE COLONY'S EXPORTS.

INVESTMENT AND STATISTICS	VALUE
BOOK AT END	
OF 1974	
A. U.S. DIRECT INVESTMENT	US\$162.5 MILLION
B. DIRECT INVESTMENT BY ALL COUNTRIES	
--TOTAL, INCLUDING U.S.	331.8
--OTHER COUNTRIES	
1. JAPAN	50.9
2. UNITED KINGDOM#	27.6
3. THAILAND	26.9

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C. DIRECT INVESTMENT IN THE U.S. NOT AVAILABLE  
 SOURCE: DEPARTMENT OF COMMERCE AND INDUSTRY, HKG  
 #DOES NOT INCLUDE THE SUBSTANTIAL HOLDINGS OF OLD, ESTABLISHED TRADING COMPANIES AND BANKS WHICH ARE CONSIDERED HONG KONG FIRMS AND NOT FOREIGN.  
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